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Martin Wolf: The trouble with a longer life

By Martin Wolf

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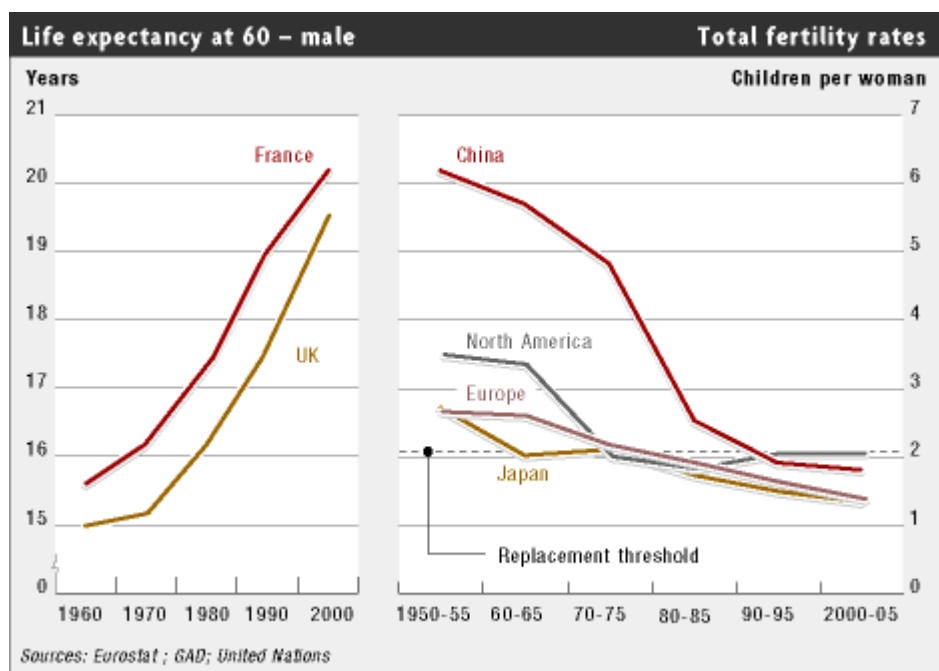
A new year gives an opportunity to look ahead. But instead of looking ahead just a year, why not look ahead decades? This gives us an opportunity to marvel at one of humanity's talents: its ability to see a tragedy in every triumph. We are enjoying two of the most beneficent transformations in human history: a revolution in life expectancy and the liberation of women from the burden of their biology. And how do we respond? We moan about imploding pension schemes.

The worries are not unjustified. But let us for a moment enjoy the achievement. Two centuries ago, life expectancy in today's high-income countries was 36 years; today, it is nearly 80. In the early 19th century, French mortality in the first year of life was 181 per 1,000; today, it is four. Today, parents can expect their children to survive them and both men and women have hopes of living lives that are long, varied and fulfilling.

We can even hope for that comfortable extended holiday we call retirement. Or can we? What has been liberating for individuals creates challenges for collectives. The nature of that challenge was spelt out by Adair Turner, former director-general of the Confederation of British Industry and currently chairman of the UK's commission on pension policy, in a lecture last autumn.*

Europe, observes Mr Adair, is experiencing a profound demographic shift as a result of two forces: increasing longevity and declining fertility. Neither development is news. But some of the details may be.

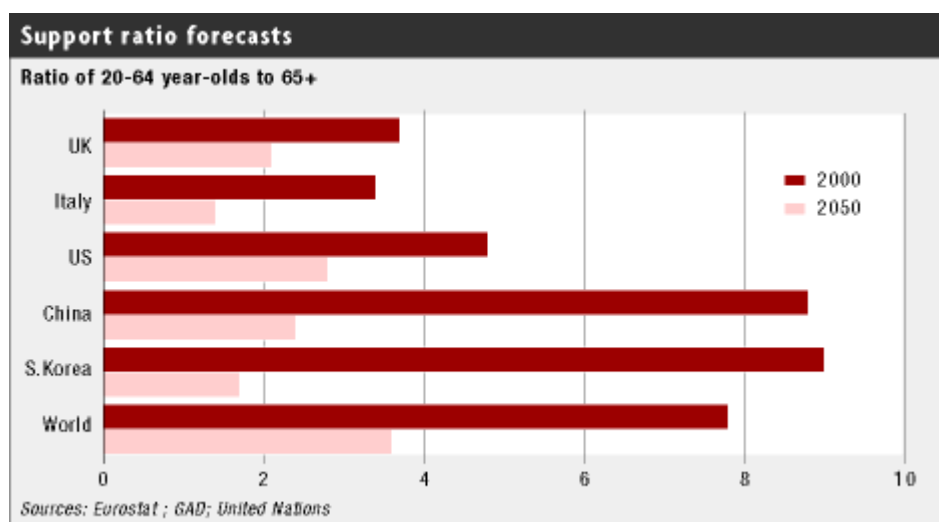
In the first place, increasing longevity is much more than a matter of declining mortality among the young. The old are living longer than ever before. The rise in life expectancy of the old has been accelerating over the past two decades (see chart below). In 1980, male life expectancy at 60 was just over 16 years in the UK; today, it is nearly 20 years.



In the second place, the European fertility rate fell below replacement in the mid-1970s and is now about 1.4. Today, not one European country, west or east, except Albania, has a fertility rate above replacement. In 2001, Italy's was 1.24, Spain's 1.25 and Germany's 1.29. The UK's, on 1.63, was a little better. Only France, of the big western European countries, has a comfortable birth rate, at 1.90.

In the third place, these are global phenomena. China's life expectancy is already 70. Declines in fertility are equally universal. The US fertility rate is at replacement, unlike Europe's. But the most prosperous groups - whites and Asians - already have rates well below replacement. In east Asia the decline is even more dramatic than in Europe (see chart). As Mr Turner says, whenever we see reasonable prosperity, high female literacy and a supply of contraceptives that are legal, safe and reasonably cheap, we find fertility rates dropping towards (and even below) replacement levels.

What does this imply for pension systems? Declining support ratios is the answer. Start with a pay-as-you-go scheme, with a population that grows at 0.5 per cent a year, works from age 20 to 65 and has 15 years in retirement. The steady-state ratio of workers to pensioners is 3.5. If the population starts to shrink at 0.5 per cent a year instead, the ratio falls to 2.6. If life expectancy in retirement rises to 20 years, the support ratio falls to 1.9. This is more or less what may happen in many countries (see chart below).



What can be done in response? There are three choices: increased retirement ages; bigger worker and employer contributions; and poorer pensioners, relative to average earnings. The shifts needed are huge. If the support ratio falls by 43 per cent, which is the forecast for the UK, pensioner incomes must fall by 43 per cent, worker and employer contribution rates must rise by 76 per cent, or retirement ages must rise disproportionately against the increase in post-retirement longevity. In the example, the retirement age must rise from 65 to 73 to drive the support ratio back to 3.5.

Much higher retirement ages are inevitable. But what further policy options might there be? One, long-touted in Anglo-Saxon countries, is the funding of pensions. Although this is not the occasion to make the points in detail, that shift makes less difference than is often supposed. Funding helps only if it raises the savings of current and future generations.

Another possibility, relevant in parts of Europe, is higher employment of people of normal working age. This means more jobs for women and the young. That would require radical policy changes. While beneficial, it would be a one-off measure, not a permanent solution.

Increased immigration is another option. The immigration needed to keep support ratios constant is impossibly high: the UK's population would reach 136m by 2050 and Europe's would exceed 1bn. But, with a rise in the retirement age in proportion to the increase in longevity, the immigration required to keep the support ratio constant necessitates a population growth of about 30 per cent every 50 years. This is not quite inconceivable, though it is huge.

Yet it would raise two sensitive issues. First, European countries already densely populated by comparison with the US would become far more so; and, second, given the demography of the European neighbourhood, most of the new immigrants would be Muslims.

This leaves a last possibility: more children. Raising the population in this way also creates the same risk of overcrowding as immigration, though the challenge of assimilation would disappear. A more modest aim would be to bring birth rates closer to replacement, particularly in countries where they are now far below that level.

Policy must be designed to make it possible for women, above all educated women, to combine fulfilling careers with children. That brings us to an intriguing conclusion. The cultures in which women have stopped having children most completely are those of southern Europe and east Asia. Here women are emancipated if they remain childless, but imprisoned by traditional male attitudes if they do not.

What is happening in Italy, Spain and Japan is the war of women against male chauvinism. Women are winning. If the men who dominate these countries do not surrender, they will soon not have much of a society left.

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